

SPEARVILLE HOSPITAL DISTRICT

**FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
with
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED DECEMBER 31, 2015 AND 2014**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Spearville Hospital District
Spearville, Kansas

We have audited the accompanying financial statements of the business-type activities of the Spearville Hospital District as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Spearville Hospital District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Spearville Hospital District as of December 31, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not required parts of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Kennedy McKee & Company LLP

April 29, 2016

SPEARVILLE HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

	December 31,	
	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 136,547	\$ 79,845
Certificate of deposit	28,038	27,940
Property taxes receivable	148,601	202,569
Other receivables	3,545	341
Inventory	3,046	3,593
Prepaid expenses	5,573	12,171
Total current assets	325,350	326,459
Noncurrent assets:		
Capital assets:		
Property, plant and equipment, net	376,120	379,305
Total assets	\$ 701,470	\$ 705,764
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current liabilities:		
Accounts payable	\$ 22,290	\$ 19,776
Accrued expenses	5,433	6,661
Total current liabilities	27,723	26,437
Deferred inflows of resources	207,924	202,569
NET POSITION		
Net investment in capital assets	376,120	379,305
Unrestricted	89,703	97,453
Total net position	465,823	476,758
Total liabilities, deferred inflows of resources, and net position	\$ 701,470	\$ 705,764

The accompanying notes are an integral part of the financial statements.

SPEARVILLE HOSPITAL DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year ended December 31,	
	2015	2014
Operating revenues:		
Net resident service revenue	\$ 95,882	\$ 80,633
Clinic revenues	7,181	11,620
Friendship meals	35,325	33,581
Miscellaneous	1,087	549
Total operating revenues	<u>139,475</u>	<u>126,383</u>
Operating expenses:		
Payroll	109,518	104,074
Payroll taxes	9,616	7,618
Employee health insurance	12,700	15,451
Repairs and maintenance	17,767	15,572
Clinic expenses	58,921	48,296
Friendship meals expense	34,549	31,586
Utilities	41,807	39,489
Insurance	19,823	21,160
Office supplies and expenses	3,988	3,631
Legal and accounting	7,686	15,951
Depreciation	56,789	61,982
Miscellaneous expense	3,197	3,256
Total operating expenses	<u>376,361</u>	<u>368,066</u>
Operating income (loss)	<u>(236,886)</u>	<u>(241,683)</u>
Nonoperating revenues (expenses):		
Property taxes	213,822	209,774
Interest income	275	314
Noncapital grants and gifts	10,906	5,354
Gain (loss) on disposal of assets	948	(1,538)
Total nonoperating revenue	<u>225,951</u>	<u>213,904</u>
Change in net position	(10,935)	(27,779)
Net position, beginning of year	<u>476,758</u>	<u>504,537</u>
Net position, end of year	<u>\$ 465,823</u>	<u>\$ 476,758</u>

The accompanying notes are an integral part of the financial statements.

SPEARVILLE HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2015	2014
Cash flows from operating activities:		
Receipts from and on behalf of residents and patients	\$ 99,859	\$ 95,127
Receipts from meals	35,325	33,581
Payments to suppliers and contractors	(190,779)	(185,790)
Payments to employees	(120,362)	(111,249)
Other receipts, net	1,087	549
Net cash provided (used) by operating activities	<u>(174,870)</u>	<u>(167,782)</u>
Cash flows from noncapital financing activities:		
Property taxes supporting operations	273,145	209,774
Noncapital grants and gifts	10,906	5,354
Net cash provided (used) by noncapital financing activities	<u>284,051</u>	<u>215,128</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	2,261	-
Purchase of capital assets	<u>(54,917)</u>	<u>(26,113)</u>
Net cash provided (used) by capital and related financing activities	<u>(52,656)</u>	<u>(26,113)</u>
Cash flows from investing activities:		
Interest income	275	314
Net change in certificates of deposit	<u>(98)</u>	<u>(97)</u>
Net cash provided (used) by investing activities	<u>177</u>	<u>217</u>
Net increase (decrease) in cash and cash equivalents	56,702	21,450
Cash and cash equivalents, January 1	<u>79,845</u>	<u>58,395</u>
Cash and cash equivalents, December 31	<u><u>\$ 136,547</u></u>	<u><u>\$ 79,845</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating loss	\$ (236,886)	\$ (241,683)
Depreciation	56,789	61,982
Changes in operating assets and liabilities:		
Other receivables	(3,204)	2,874
Inventory	547	167
Prepaid expenses	6,598	449
Accounts payable	2,514	7,986
Accrued expenses	<u>(1,228)</u>	<u>443</u>
Net cash used in operating activities	<u><u>\$ (174,870)</u></u>	<u><u>\$ (167,782)</u></u>

The accompanying notes are an integral part of the financial statements.

SPEARVILLE HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015 and 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of operations

The Spearville Hospital District (the District) is operated by a Board of Directors elected by the qualified voters of the District. The District was organized to provide not-for-profit services for the benefit of the residents in and around Ford County. The District primarily earns revenue by providing self-care apartments and senior meals. Additionally, basic medical services are provided at the District's clinic through a contract with the Hodgeman County Health Center.

2. Basis of accounting

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows/outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Property taxes and investment income are included in nonoperating revenues and expenses.

3. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and deferred inflows/outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents.

5. Property taxes

The District received approximately 59% and 61% of its financial support from property taxes in 2015 and 2014, respectively. One hundred percent of these funds were used to support operations.

Property taxes are assessed in November and are received beginning in January of the following year. Revenue from property taxes is recognized in full in the year following the year the taxes were levied, which is the year in which use is first permitted.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Risk management

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

7. Receivables

All receivables are reported net of estimated uncollectible amounts.

8. Inventory

Inventory is stated at the lower of cost, determined using the first-in, first-out method, or market.

9. Capital assets

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Land improvements	10 - 15 years
Buildings	5 - 40 years
Major moveable equipment	5 - 20 years

10. Compensated absences

The District's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. Deferred inflows of resources

The District's statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). Revenue from property taxes is recognized in full in the year following the year the taxes were levied, which is the year in which use is first permitted. Accordingly, unavailable revenues from property taxes are reported in the statement of net position.

12. Net position

Net position of the District is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

13. Income taxes

As an essential government entity, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

B. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports, Kansas Department of Administration, and interpretation by legal representatives of the entity.

The budget law provided by K.S.A. 79-2935 prohibits the expenditure of funds in excess of that allowed by budget. Expenditures exceeded the adopted budget by \$8,634 in 2014.

C. DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the State of Kansas; bonds of any city, county, school district, or special road district of the State of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2015 and 2014, the District's bank deposits did not exceed federal depository insurance coverage limits.

D. CAPITAL ASSETS

	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
Land and land improvements	\$ 40,786	\$ -	\$ -	\$ 40,786
Buildings	1,578,613	46,296	-	1,624,909
Major moveable equipment	<u>293,546</u>	<u>8,621</u>	<u>4,320</u>	<u>297,847</u>
	<u>1,912,945</u>	<u>54,917</u>	<u>4,320</u>	<u>1,963,542</u>
Less accumulated depreciation				
Land improvements	34,686	-	-	34,686
Buildings	1,272,851	43,694	-	1,316,545
Major moveable equipment	<u>226,103</u>	<u>13,096</u>	<u>3,008</u>	<u>236,191</u>
	<u>1,533,640</u>	<u>56,790</u>	<u>3,008</u>	<u>1,587,422</u>
Capital assets, net	<u>\$ 379,305</u>	<u>\$ (1,873)</u>	<u>\$ 1,312</u>	<u>\$ 376,120</u>

	Balance January 1, 2014	Additions	Deletions	Balance December 31, 2014
Land and land improvements	\$ 57,019	\$ -	\$ 16,233	\$ 40,786
Buildings	1,692,669	4,200	118,256	1,578,613
Major moveable equipment	<u>237,623</u>	<u>63,789</u>	<u>7,866</u>	<u>293,546</u>
	<u>1,987,311</u>	<u>67,989</u>	<u>142,355</u>	<u>1,912,945</u>
Less accumulated depreciation				
Land improvements	47,954	2,064	15,332	34,686
Buildings	1,338,266	46,769	112,184	1,272,851
Major moveable equipment	<u>184,379</u>	<u>41,724</u>	<u>-</u>	<u>226,103</u>
	<u>1,570,599</u>	<u>90,557</u>	<u>127,516</u>	<u>1,533,640</u>
Capital assets, net	<u>\$ 416,712</u>	<u>\$ (22,568)</u>	<u>\$ 14,839</u>	<u>\$ 379,305</u>

E. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 29, 2016, the date on which the financial statements were available to be used. Management's evaluation concluded that there are no subsequent events that are required to be recognized or disclosed in these financial statements.

SUPPLEMENTARY INFORMATION

SPEARVILLE HOSPITAL DISTRICT

COMPARISON OF REVENUES AND EXPENSES (CASH BASIS) ACTUAL AND BUDGET

Year ended December 31, 2015

	Budgeted amounts		Actual amounts	Variance with
	Original	Final	(budgetary basis)	final budget positive (negative)
Budgetary fund balance, beginning of year	\$ 92,828	\$ 92,828	\$ 81,348	\$ (11,480)
Resources (inflows):				
Taxes	211,055	211,055	273,145	62,090
Net resident service revenue	80,040	80,040	95,882	15,842
Friendship meals	29,568	29,568	35,325	5,757
Clinic revenues	20,340	20,340	3,977	(16,363)
Administrative income	400	400	-	(400)
Investment earnings	400	400	275	(125)
Noncapital grants	500	500	10,906	10,406
Miscellaneous	-	-	3,348	3,348
Amounts available for appropriation	435,131	435,131	504,206	69,075
Charges to appropriations (outflows):				
Salaries and benefits	137,238	137,238	131,834	5,404
Utilities and phone	41,149	41,149	41,807	(658)
Legal and accounting	16,001	16,001	7,686	8,315
Advertising	1,355	1,355	1,295	60
Supplies, repairs and maintenance	140,924	140,924	51,061	89,863
Insurance	18,204	18,204	19,823	(1,619)
Clinic expense	23,760	23,760	58,921	(35,161)
Capital outlay	56,500	56,500	54,917	1,583
Total charges to appropriations	435,131	435,131	367,344	67,787
Budgetary fund balance, end of year	\$ -	\$ -	\$ 136,862	\$ 136,862

SPEARVILLE HOSPITAL DISTRICT

BUDGETARY COMPARISON STATEMENT BUDGET TO GAAP RECONCILIATION

Year ended December 31, 2014

Sources/inflows of resources:

Actual amounts available for appropriation from the budgetary comparison statement	\$ 504,206
Differences, budget to GAAP:	
The unencumbered cash at the beginning of the year is a budgetary resource, but is not a current-year revenue for financial reporting purposes.	(81,348)
Current year property tax and other receivable amounts are not a budgetary resource, but they are revenues for financial reporting purposes.	152,146
Prior year property taxes and other receivable amounts are a budgetary resource, but they are not revenues for financial reporting purposes.	(202,910)
Current year deferred inflows of resources are a budgetary resource, but they are not revenues for financial reporting purposes.	(207,924)
Prior year deferred inflows of resources are not a budgetary resource, but they are revenues for financial reporting purposes.	202,569
Proceeds from the sale of capital assets is a budgetary resource, but is not a revenue for financial reporting purposes.	<u>(2,261)</u>
Total revenues and nonoperating revenues as reported on the statements of revenues, expenses and changes in net position	<u><u>\$ 364,478</u></u>

Uses/outflows of resources:

Actual amounts of charges to appropriations from the budgetary comparison statement	\$ 367,344
Differences, budget to GAAP:	
Depreciation expense is an expense for financial reporting but not for budgetary purposes.	56,789
Prepaid expenses are budgetary outflows but are deferred and reported as an expense as the benefit is utilized.	6,598
Capital asset purchases are budgetary outflows but are capitalized and depreciated over a specified class life for financial reporting purposes.	(54,917)
Inventory purchases are included as a budgetary outflow, but are reported as an expense when the inventory is sold for financial reporting purposes.	<u>547</u>
Total operating expenses as reported on the statements of revenues, expenses and changes in net position	<u><u>\$ 376,361</u></u>